

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004****NOTE 16 – LEGAL MATTERS/CONTINGENT LIABILITIES****Primary Government**

Any liability from litigation currently pending or probable of assertion against King County and in which, to our knowledge, the likelihood of an unfavorable outcome with material damages (in excess of \$500,000) assessed against King County is probable, has been accrued in the financial statements.

The following litigation, or threatened litigation, may involve claims for material damages against King County for which the County is unable to provide an opinion as to the ultimate outcome or the amount of damages that may be found:

- A potential administrative order that may require King County, the City of Seattle, Boeing, and the Port of Seattle, to remediate the contamination in the Lower Duwamish Waterway. This will depend on the results of an investigation currently being conducted by these same agencies, in compliance with an earlier administrative order, to determine the nature and extent of the contamination. At this early stage, the County's share of the cost of remediation is undeterminable.
- A potential court order that may require the County to pay approximately \$3.0 million in interest related to the refund of vehicle license fees brought about by Initiative 779. Although a trial court has authorized the vehicle license fee refund scheme offered by the County and the Department of Licensing, certain plaintiffs have filed a motion with the Supreme Court for direct review of the trial court's decision, raising the possibility that the refund scheme may be modified to include interest.
- A lawsuit filed with the King County Superior Court by a group of part-time transit operators seeking backpay, prejudgment interest, double damages, and attorneys' fees. Plaintiffs allege they did not receive the same medical and leave benefits as other career service employees and that this violates provisions of the County charter and ordinances, State constitution, and the United States code.
- A class action lawsuit alleging violation of the Washington Industrial Welfare Act regarding the provision of paid lunch breaks for certain employees of the Department of Adult and Juvenile Detention, Juvenile Division's Alder Street facility. Plaintiffs seek backpay, double damages, prejudgment interest, attorneys' fees, and declaratory relief. In its review of a similar case, the Washington State Supreme Court concluded that the relevant provisions of the Industrial Welfare Act did not apply to State political subdivisions prior to 2003. In the light of this, the County anticipates either the plaintiffs to file for dismissal, or the County to move for summary judgment.
- A class action lawsuit filed on behalf of Transit operators alleging the County failed to properly compensate them for travel time. The class seeks back wages, double damages, and attorneys' fees.
- A class action lawsuit challenging the legality of the permit review fees assessed by the County's Department of Development and Environmental Services (DDES). Plaintiffs seek declaratory and injunctive relief and a refund of fees that plaintiffs were allegedly overcharged. Initial court rulings acknowledged that indirect costs are proper components of DDES permit fees and approved most indirect costs but left other issues, such as reasonableness of DDES' fees, for future resolution.

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DECEMBER 31, 2004**

NOTE 16 – CONTINUED

Contingent Liabilities

- Although the Department of Ecology has not mandated remediation of any site adjacent to combined sewer overflows, the Wastewater Treatment Enterprise has conducted a review and has identified seven areas that may require sediment remediation. Due to the high level of regulatory review, approval requirements, and the environmental permitting associated with these projects, and the uncertainty related to the particular remediation alternative for each project, the schedule of required remediation and costs of remediation have not been fully determined. The enterprise has accrued \$2.4 million for the sediment remediation plan as of December 31, 2004.
- King County has entered into several contingent loan agreements totaling \$41.4 million with the King County Housing Authority (KCHA) and other owners/developers of affordable housing. The County has provided credit support in the form of reserve guarantees for certain bonds issued by KCHA. All projects are currently self-supporting and the County has made no loans pursuant to these agreements.

Component Unit – Harborview Medical Center

Harborview Medical Center (HMC) is involved in litigation arising in the course of business. It is HMC management's opinion that these matters will be resolved without material adverse effect to HMC's future financial position or results of operations.

The current regulatory environment in the healthcare industry is one of increasing governmental activity with respect to investigations and allegations concerning possible violations of regulations by healthcare providers that could result in the imposition of significant fines and penalties, including significant repayments of patient services previously billed. HMC believes that it complies with the fraud and abuse regulations, as well as other laws and regulations. Compliance with such laws and regulations can be subject to future governmental review and interpretation and regulatory actions unknown or unasserted at this time.

HMC is operated by the University of Washington under a management and operations contract with King County. In this contract, the University of Washington agrees to defend, indemnify, and save harmless King County, its elected and appointed officials, employees, and agents, from and against any damage, cost, claim, or liability arising out of the negligent acts or omissions of the University, its employees or agents, or arising out of the activities or operations of the medical center.